

**STATE OF UTAH INSURANCE DEPARTMENT
FINANCIAL EXAMINATION REPORT
OF**

**DESERET MUTUAL INSURANCE COMPANY
OF**

SALT LAKE CITY, UTAH

AS OF

DECEMBER 31, 2000



TABLE OF CONTENTS

SALUTATION	1
SCOPE OF EXAMINATION	1
Period Covered by Examination.....	1
Examination Procedure Employed	1
Status of Prior Examination Findings	2
HISTORY	2
General	2
Dividends to Policyholders	2
Management	2
Conflict of Interest Procedure.....	4
Corporate Records	5
AFFILIATED COMPANIES	5
FIDELITY BOND AND OTHER INSURANCE.....	6
PENSION STOCK OWNERSHIP AND INSURANCE PLANS.....	6
STATUTORY DEPOSITS	6
INSURANCE PRODUCTS AND RELATED PRACTICES	7
Policy Forms and Underwriting.....	7
Territory and Plan of Operation	7
Advertising and Sales Material	8
Treatment of Policyholders.....	8
REINSURANCE	8
Assumed	8
Ceded.....	8
ACCOUNTS AND RECORDS.....	9
FINANCIAL STATEMENT.....	10
Balance Sheet as of December 31, 2000.....	11
Summary of Operations for the Year Ended December 31, 2000.....	12
Capital and Surplus for the Years Ended 1997 through 2000.....	13
COMMENTS ON FINANCIAL STATEMENT	14
SUMMARY OF COMMENTS AND RECOMMENDATIONS	17
CONCLUSION	18

July 19, 2001

Honorable Merwin U. Stewart, Commissioner
Utah Insurance Department
State Office Building, Room 3110
Salt Lake City, Utah 84114

In accordance with your instructions and in compliance with the insurance laws of the state of Utah, an examination of the financial condition and business affairs of

DESERET MUTUAL INSURANCE COMPANY
of
Salt Lake City, Utah

a mutual life insurance company, hereinafter referred to as the Company, was conducted as of December 31, 2000.

SCOPE OF EXAMINATION

Period Covered by Examination

The last examination was made as of December 31, 1996. The current examination covers the period from January 1, 1997, through December 31, 2000, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination. All phases of the examination were conducted to determine compliance with generally accepted regulatory standards and procedures in conformity with the Utah Code Annotated (U.C.A.) and Utah Administrative Code (U.A.C.).

Examination Procedure Employed

The examination included a general review and analysis of the Company's operations and the manner in which its business was conducted. In addition, assets were verified and valued, liabilities were determined or estimated, accounting records were tested and a determination of its financial condition as of December 31, 2000, was performed.

The examiners relied on the findings of an actuarial firm contracted by the Utah Insurance Department (Department) to verify accident and health premiums due and unpaid, aggregate reserves for life, and accident and health policies and contracts, supplementary contracts without life contingencies, premium and annuity considerations received in advance, and policy and contract claims. Examiners were responsible for testing the completeness of the records provided to the firm and the accuracy of the underlying data used to establish account values.

A letter of representation, certifying that management has disclosed all significant matters and records, was obtained from management and has been included in the examination working papers.

Status of Prior Examination Findings

The previous examination, performed by the Department as of December 31, 1996, increased the Company's reported surplus by approximately \$108,351. The increase resulted primarily from a reclassification of invested assets to bonds. Important points and recommendations noted in the prior examination report have been addressed by the Company or have received further comment in this report.

HISTORY

General

On January 14, 1969, the Company was organized as Far-West Mutual Life Insurance Association pursuant to Utah Insurance Code Title 31, Chapter 30. In 1970, the Corporation of the President of The Church of Jesus Christ of Latter-day Saints and affiliates, assumed control of the Company upon issuance of Company insurance contracts to them. The name of the Company was then changed to Deseret Mutual Benefit Association. Since then the Company has had other name changes. As of December 4, 1987, the Company has had the name "Deseret Mutual Insurance Company."

Dividends to Policyholders

On November 14, 1996, the Company's board of directors resolved that the tax sheltered annuity contract surplus be paid to the respective employer policyholder of an annuity contract on a pro-rata basis subsequent to the close of operations as of December 31, 1996. The amount of gross dividend or payment and subsequent allocable pro-rata share of each employer policyholder was to be determined by the board effective December 31, 1996. The related dividend, \$12,372,096, was paid during June 1997.

Management

The Company is a mutual insurer controlled by its members, which are companies or organizations owned by The Church of Jesus Christ of Latter-day Saints (the "Church"). The business matters of the Company are governed by its articles of incorporation and bylaws. Management of the Company is vested in its board of directors.

The following were serving as directors of the Company as of December 31, 2000:

<u>Name and Residence</u>	<u>Principal Business Affiliations</u>
Rodney H. Brady Salt Lake City, Utah	President and Chief Executive Officer, Deseret Management Corporation
Harold C. Brown Salt Lake City, Utah	Managing Director, Welfare Services of the Church
Kent H. Cannon Salt Lake City, Utah	President and Director, Beneficial Life Insurance Company
Roger G. Christensen South Jordan, Utah	Administrator of Financial Services, Church Educational System
Brad W. Farnsworth Provo, Utah	Administrative Vice President, Brigham Young University
Clinton R. Gurney Salt Lake City, Utah	Managing Director, Human Resources of the Church
Robert A. Johnson Sandy, Utah	Executive Vice President and Chief Operations Officer, Bonneville International Corporation
B. Lloyd Poelman Salt Lake City, Utah	Senior Attorney, Kirtan & McConkie
Michael "J" Stapley Bountiful, Utah	President and Chief Executive Officer, Deseret Mutual Insurance Company

Officers of the board of directors serving at December 31, 2000, were as follows:

<u>Name</u>	<u>Title</u>
Rodney H. Bradey	Chairman of the Board
Clinton R. Gurney	Vice Chairman
Victor N. Gibb	Secretary

Officers of the Company serving at December 31, 2000, were as follows:

Michael "J" Stapley	President and Chief Executive Officer
Victor N. Gibb	Senior Vice President, Chief Legal Counsel, and Secretary
Stephen A. Felsted	Vice President and Chief Financial Officer
David D. Call	Vice President
Scott C. Thornton	Chief Actuary
Kent A. Misener	Treasurer
David K. Ferre	Controller

At December 31, 2000, the following committee members serving were:

Audit and Legal Committee

Brad W. Farnsworth
B. Lloyd Poelman
Roger G. Christensen

Executive Committee

Rodney H. Brady, Chairman
Clinton R. Gurney
Michael "J" Stapley
B. Lloyd Poelman

Benefit Advisory Committee

Clinton R. Gurney, Chairman
Harold C. Brown
Blair Condie
Roland Radack
Roger G. Christensen
Michael "J" Stapley

Human Resources Committee

Harold C. Brown, Chairman
Michael "J" Stapley, Vice Chairman
Shelley Brooks
Clinton R. Gurney
B. Lloyd Poelman
Peggy M. Stone

Budget and Funding Policy Committee

Roger G. Christensen
Dale G. Bailey
M. Farrell Benson
Brad W. Farnsworth
Michael "J" Stapley

Compensation Committee

Rodney H. Bradey, Chairman
Robert A. Johnson
B. Lloyd Poelman
Michael "J" Stapley

Investment Committee

Kent H. Cannon, Chairman
Rodney H. Brady
Ivan T. Call
Roger Clarke
Wayne G. Facer

Brad W. Fransworth
Stephen A. Felsted
Robert A. Johnson
Michael "J" Stapley

Conflict of Interest Procedure

Conflict of interest statements were not completed by directors or officers of the Company during the examination period. Common business practice prescribes conflict of interest statements be completed by insurer directors, officers and other key personnel responsible for the Company's operations. This was also disclosed in the prior examination report.

As of May 22, 2001, conflict of interest statements were completed by the Company.

Corporate Records

The articles of incorporation, bylaws, minutes of the board of directors and of the members were reviewed. The bylaws were amended as of January 1, 2000, revising the annual meeting of its members to be held on the second Thursday of June each year. The bylaws were also amended March 23, 2001, to reflect that the upper limit of service on the board shall be set at 70 years of age, effective June 12, 1996. On April 1, 2001, the bylaws were amended to reflect that a majority of the directors shall be residents of the state of Utah to be consistent with U.C.A. §31A-5-407(2).

On May 16, 2001, these amendments were filed with the Department pursuant to U.C.A. §31A-5-203(4), which requires copies of bylaws and amendments be filed with the commissioner within 60 days of their adoption.

The minutes contained detail information about the Company including current events, officer and director elections, investment transactions and regulatory issues. In general, the minutes adequately approved and supported Company transactions and events. However, the board minutes did not disclose authorized signatories for the Company on their bank accounts. As of May 17, 2001, the board minutes ratified various individuals as authorized signatories on the Company's bank accounts.

During the period covered by the examination, the board minutes were not signed by an officer of the Company. It was recommended that the Company sign the board minutes to evidence the status as an official corporate document. The Company as of the 2001 minutes has implemented this practice.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined under U.C.A. §31A-1-301(61). The ultimate control was exercised by the Church, together with its subsidiaries and subordinate corporations, as the Company's policyholders.

The Company owned 100% of the common stock of Deseret Mutual Benefit Administrators (DMBA) and had common management with Deseret Mutual Employee Pension Trust, a legal entity, and Deseret HealthCare Employee Benefit Trust, a nonprofit entity.

During the period covered by the examination, the Company received permission from the Department, for the Form B to be filed with unaudited financial statements. However, the Company did not file the Form B on a timely basis for the year 2000. The Forms B for 1998 and 1999 were not filed until October 4, 2000.

As of January 1, 1987, the Company entered into an agreement with its affiliate, DMBA, a third party administrator licensed in Utah. Under the agreement, DMBA

agrees to provide administrative services to the Company for claims and benefit administration of the plans offered by the Company to its participating employers, which plans include, but are limited to the following: General Authority, Church Activity, and all Student Plans to include BYU, BYU Hawaii, LDS Business College, and Ricks College.

As of December 31, 2000, other affiliated transactions included the following: Deseret Trust Company acted as custodian for a majority of the Company's invested assets; Zions Securities Corporation, maintained a lease agreement on office space located at the Company's home office; and Beneficial Life Insurance Company ceded accident and health business to the Company.

FIDELITY BOND AND OTHER INSURANCE

The minimum fidelity coverage suggested by the National Association of Insurance Commissioners (NAIC) for a company of the Company's size and premium volume is not less than \$1,750,000. As of the examination date, employees of DMBA performed accounting and administrative functions necessary for the Company's operations and participated in fidelity bond coverage of \$3,000,000, with a deductible of \$50,000.

The Company also had additional insurance protection against loss from property and liability risks.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees and thus had no employees' benefit program or life and health insurance plans for employees.

STATUTORY DEPOSITS

Pursuant to U.C.A. § 31A-4-105, the Company was required to maintain a deposit in an amount equal to its minimum permanent surplus requirement. The Company's minimum permanent surplus requirement was \$400,000 at December 31, 2000.

The deposit maintained by the Company at December 31, 2000, was as follows:

<u>State</u>	<u>Security</u>	<u>Par Value</u>	<u>Market Value</u>
Utah	U.S. Treasury Bond	\$1,050,000	\$1,050,000

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

As of December 31, 2000, the Company insured individual and group annuity products, group life, accident and health and long-term disability benefits. Supplemental insurance was provided to units of the Church under an activity program. The Company's senior missionaries health plan, was allowed to operate as self insured under U.C.A. § 31A-1-103(3)(f), effective October 20, 1997.

Insurance benefits available to employees of the Church and its related organizations or corporations outside the United States, through various international employee benefit programs, were made available through an International Insurance Agreement (IIA).

The types of coverage available under this agreement include medical, death, occupational accidental death and dismemberment, disability and twenty-four hour accidental death & dismemberment benefits. As of December 31, 2000, there were 90 benefit plans or programs covered by this agreement.

Underwriting consisted of criteria requirements and eligibility guidelines within the Company's covered plans. The risk retention limits defined in the Company's member handbooks were as follows:

<u>Accident and Health:</u>	<u>Limits:</u>
General Authority (medical and dental)	Unlimited
Senior Service Missionary Plan	\$1,000,000
College Student Plans (basic and catastrophic coverage combined)	\$ 120,000
Church Activity	\$ 15,000
I.I.A. Disability & Medical Coverage	Based on salary
<u>Life:</u>	
General Authority	\$ 266,000
I.I.A. Coverage	Based on salary

The risk retention limits defined in the Company's member handbooks were not consistent with its policy forms effective December 31, 2000.

Territory and Plan of Operation

As of December 31, 2000, the Company was licensed to transact the business of life, annuity, variable life and disability insurance in the state of Utah. In August 2000, the Company filed with the Hawaii Department of Insurance, to become an admitted carrier in the state of Hawaii.

The Company's insurance contracts were with Utah based corporations which may have covered members located in other jurisdictions. The Church had affiliates with

employees located outside the state of Utah and beyond the territorial limits of the United States who qualified as employees of the Church, its subsidiaries, affiliates, or other associated organizations.

Advertising and Sales Material

The Company did not solicit insurance sales to the general public and did not conduct any form of media advertising.

Treatment of Policyholders

The Department's records disclosed no complaints were filed against the Company during the examination period. The examiners encountered no items of concern during the course of the examination regarding treatment of policyholders.

REINSURANCE

Assumed

January 1, 2000, the Company assumed accident and health business from an affiliate, Beneficial Life Insurance Company. The assumed business consisted of the Student Health Plan for Brigham Young University Hawaii. As of December 31, 2000, the Company did not maintain a written agreement.

Ceded

As of December 31, 2000, the Company maintained a Catastrophe Excess of Loss Reinsurance Agreement with various authorized reinsurers and one unauthorized reinsurer in the state of Utah. The agreement indemnified the Company in respect to net excess liability as a result of any loss covering group life (basic, supplemental, and keyman) and accidental death and dismemberment business in force, written or renewed.

The Company ceded the excess of the first \$750,000, each and every loss occurrence, subject to a limit of liability of \$200,000,000.

In addition, the Company maintained a Medical Catastrophe Excess of Loss Reinsurance Agreement with an authorized reinsurer in the state of Utah. The agreement indemnified the Company in respect to the net excess liability as a result of any loss covering group medical insurance benefits in force, written, or renewed.

The Company ceded the excess of the first \$300,000, each and every loss occurrence, subject to a limit of liability of \$49,700,000.

As of December 31, 2000, the Company's ceded business was placed through an intermediary. The Company was not in compliance with U.C.A. §31A-23-702 which

requires an intermediary-broker contract. During the examination, the Company effectuated an intermediary contract, which was consistent with U.C.A. §31A-23-702.

ACCOUNTS AND RECORDS

The Company's accounting system was maintained on an accrual basis and consisted of a general ledger, registers and other computerized reports created from source documents. The Company utilized a Hewlett-Packard model 3000 minicomputer and a commercial software package to maintain its accounting and policyholder information. Procedures for the protection of electronic data processing appeared to be in place. The Company's contingency plan included regular system backups and a disaster preparedness plan to facilitate the restoration of the Company's data processing capabilities.

An examination trial balance, as of December 31, 2000, was prepared from the Company's computerized general ledger. Account balances were traced to annual statement exhibits and schedules. Individual account balances for the examination period were examined as deemed necessary.

The Company retained the services of a certified public accounting firm to audit its financial records during the examination period. Work papers evidencing the audits as of December 31, 2000, were made available for the examiners to review.

FINANCIAL STATEMENT

The following financial statements are included in this report:

Balance Sheet as of December 31, 2000

Summary of Operations for the Year Ended December 31, 2000

Capital and Surplus for the Years Ended 1997 through 2000

The Comments on Financial Statement immediately following the financial statements are an integral part of the statements.

Deseret Mutual Insurance Company
Balance Sheet as of
December 31, 2000

ASSETS

	<u>Amount</u>	<u>Notes</u>
Bonds	\$33,276,626	(1)
Common stocks	0	(2)
Cash and short-term investments	(242,007)	(3)
Electronic data processing equipment	440,922	
Federal income tax recoverable	0	(4)
Accident and health premiums due and unpaid	739,188	
Investment income due and accrued	554,554	
Total assets	<u>\$34,769,283</u>	

LIABILITIES, CAPITAL AND SURPLUS

Aggregate reserve for life policies and contracts	\$12,974,864	
Aggregate reserve for accident and health policies	977,605	
Supplementary contracts without life contingencies	7,426,213	
Policy and contract claims – Life	29,537	
Policy and contract claims – Accident and Health	2,192,517	
Premiums and annuity considerations received in advance	102,603	
Provision for experience rating refunds	3,664,380	(5)
Interest maintenance reserve	479,565	(6)
General expenses due or accrued	141,472	(7)
Asset valuation reserve	268,449	(8)
Aggregate write-ins for liabilities:		
Suspense account	(54)	
Unclaimed property	1,016	
Total liabilities	<u>\$28,258,167</u>	
Gross paid in and contributed surplus	6,000	
Unassigned funds (surplus)	6,505,116	
Total capital and surplus	<u>\$ 6,511,116</u>	(9)
Total liabilities, capital and surplus	<u>\$34,769,283</u>	

Deseret Mutual Insurance Company
Summary of Operations
for the Year Ended December 31, 2000

	<u>Amount</u>
Premiums and annuity considerations	\$13,637,894
Net investment income	2,664,398
Amortization of Interest Maintenance Reserve	101,080
Miscellaneous income	102,133
Total	<u>\$16,505,505</u>
Death benefits	795,377
Annuity benefits	2,573,038
Disability benefits and benefits under accident and health policies	11,487,128
Payments on supplementary contracts with life contingencies	145,552
Increase in aggregate reserves for life and accident and health policies	574,405
Increase in reserve for supplementary contracts without life contingencies	(468,003)
Total	<u>\$15,107,497</u>
General insurance expenses	1,254,344
Insurance taxes, licenses and fees, excluding federal income taxes	60,737
Aggregate write-ins for deductions	
Increase in provision for experience rating refunds	64,493
Total	<u>\$16,487,071</u>
Net gain from operations before dividends to policyholders and federal income taxes	18,434
Dividends to policyholders	<u>0</u>
Net gain from operations after dividends to policyholders and before federal income taxes	18,434
Federal income taxes incurred	<u>85,984</u>
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	(67,550)
Net realized capital gains or losses less capital gains tax and transferred To the IMR	<u>0</u>
Net income	<u>\$ (67,550)</u>

Deseret Mutual Insurance Company
Capital and Surplus
for the Years Ended 1997 through 2000

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Capital and surplus December 31, prior year	\$ 5,439,780	\$ 8,335,809	\$ 8,960,652	\$ 10,350,431
Net income	764,780	420,728	1,119,511	(67,550)
Change in net unrealized capital gains or (losses)		(696)		
Change in nonadmitted assets and related items	1,899,975	(45,587)	220,458	(3,700,333)
Change in reserve on account of change in valuation basis				(5,881)
Change in asset valuation reserve	<u>231,274</u>	<u>250,398</u>	<u>49,810</u>	<u>(65,551)</u>
Net change in capital and surplus for the year	<u>2,896,029</u>	<u>624,843</u>	<u>1,389,779</u>	<u>(3,839,315)</u>
Capital and surplus December 31, current year	<u>\$ 8,335,809</u>	<u>\$ 8,960,652</u>	<u>\$ 10,350,431</u>	<u>\$ 6,511,116</u>

COMMENTS ON FINANCIAL STATEMENT

(1) Bonds \$33,276,626

The Company reported two securities, one purchased in 1996 and the other purchased in 1998 as "Z" designations. The purposes and procedures manual of the NAIC Securities Valuation Office (SVO), Part 4, Section 1(c), states that a company may report a security with a "Z" suffix for up to a year after purchase, after which the company shall file the security with the SVO.

(2) Common stocks \$0

The asset reported by the Company represented a \$58,702 investment in a subsidiary. Assets of the subsidiary, exceeding the subsidiary's net worth, did not qualify as assets of the Company. Although the Company had excess surplus, the referenced assets were not investments and therefore did not qualify for the investment freedom afforded the Company under the excess surplus provisions contained in the Utah Insurance Code. Reference U.C.A. §31A-17-202(1)(b) and U.C.A. §31A-17-401(3)(a)(iii). Accordingly, the asset was not admitted for examination purposes.

(3) Cash and short-term investments \$ (242,007)

The Company reported \$3,182,945 as of December 31, 2000, which consisted of three accounts: a cash account of \$(242,007); a sweep account of \$1,049,953; and a cash management fund account of \$2,375,000. The sweep account and cash management fund account were not maintained in compliance with U.C.A. §31A-4-108(1). U.C.A. §31A-4-108(1) requires an insurer hold all investments and deposits of its funds in its own name except:

- (a) securities kept under a custodial agreement or trust arrangement with a bank, securities firm's trust company, or trust company approved by the commissioner, which may be issued in the name of a nominee of the bank, securities firm's trust company, or trust company.

(4) Federal income tax recoverable \$0

The reported amount, \$280,000, was not a qualified asset pursuant to U.C.A. §31A-17-201(2), and was not recognized for examination purposes.

(5) Provision for experience rating refunds \$3,664,380

The reported amount as of December 31, 2000, was determined to be overstated by a net amount of \$18,171. An adjustment to the amount reported by the Company was

made for examination purposes since the aggregate of examination adjustments exceeded the planned materiality.

(6) Interest maintenance reserve \$479,565

The interest maintenance reserve (IMR) during the period covered by the examination was recalculated by the Company to reflect the reserve net of capital gains taxes as prescribed by Section 6(A) of the "Purposes and Procedures of the SVO." As of December 31, 2000, the examination reduced the IMR by \$58,341.

(7) General expenses due or accrued \$141,472

The Company reported a liability amount of \$92,266 as of December 31, 2000. An unsecured receivable of \$49,206 from an affiliate was used to reduce the liability. Unsecured receivables from affiliates were not identified as qualified assets per U.C.A. §31A-17-201.

(8) Asset valuation reserve \$268,449

The asset valuation reserve (AVR) reported by the Company, \$189,149, was increased by \$79,300, to reflect the effect of examination related adjustments to common stock.

(9) Capital and Surplus

\$6,511,116

The Company's capital and surplus was determined to be \$3,815,648 less than reported in the Company's annual statement as of December 31, 2000. The following schedule identifies examination changes:

Description	Annual Statement <u>Dr (Cr)</u>	Per <u>Examination</u>	Change in Surplus <u>Inc. (Dec.)</u>	<u>Notes</u>
Common stocks	\$ 58,702	\$ 0	\$ (58,702)	(2)
Cash and short term-investments	3,182,945	(242,007)	(3,424,952)	(3)
Federal income tax recoverable	280,000	0	(280,000)	(4)
Provision for experience rating refunds	3,682,551	3,664,380	18,171	(5)
Interest maintenance reserve	537,906	479,565	58,341	(6)
General expenses due or accrued	92,266	141,472	(49,206)	(7)
Asset valuation reserve	189,149	268,449	<u>(79,300)</u>	(8)
Total Changes			(3,815,648)	
Capital and surplus per Company			\$10,326,764	
Capital and surplus per Examination			<u>\$ 6,511,116</u>	

U.C.A. § 31A-5-211 requires the Company to maintain minimum capital in the amount of \$400,000. In accordance with U.C.A. 31A-17 Part VI, the Company reported total adjusted capital in the amount of \$10,515,913 and its authorized control level risk-based capital (RBC), in the amount of \$441,550.

The examination determined total adjusted capital to be \$6,779,565 and authorized control level RBC to be \$438,168. The Company's capital and surplus of \$6,511,116 substantially exceeds both the minimum capital required by U.C.A §31A-5-211 and the RBC requirements of U.C.A. §31A-17 Part VI.

SUMMARY COMMENTS AND RECOMMENDATIONS

Items of significance or special interest contained in this report are summarized below:

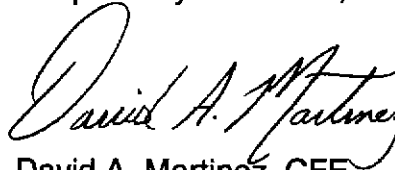
1. Conflict of interest statements were not completed by directors and officers of the Company during the examination period. The examination recommends the Company require the completion of conflict of interest statements by its directors and officers on an annual basis. Reference U.C.A. §16-10a-850. (HISTORY)
2. It is recommended that the Company file Forms B on a timely basis pursuant to U.C.A. §31A-16-105. (AFFILIATED COMPANIES)
3. The Company's member handbooks were not consistent with the policy forms effective as of December 31, 2000. It is recommended that the retention limits defined in the policy forms and identified in the member handbooks be modified to clearly reflect the Company's obligation to its policyholders. (INSURANCE PRODUCTS AND RELATED PRACTICES – Policy Forms and Underwriting)
4. As of December 31, 2000, the Company did not maintain a written agreement relative to reinsurance assumed. The examination recommends that the Company execute a written agreement. (REINSURANCE – Assumed)
5. As of December 31, 2000, the Company's ceded business was placed through an intermediary. A written agreement did not exist between the Company and the intermediary which was not in compliance with U.C.A. §31A-23-702. In May 2001, the Company effectuated an intermediary contract which was consistent with the requirements of U.C.A. §31A-23-702. (REINSURANCE – Ceded) 5,000
6. The Company's sweep account and cash management fund account were not maintained in compliance with U.C.A. §31A-4-108(1). (COMMENTS ON FINANCIAL STATEMENT – Note 3, Cash and short-term investments)
7. Total capital and surplus of the Company is \$3,815,648 less than reported in the Company's annual statement as of December 31, 2000. However, the Company's capital and surplus of \$6,511,116 substantially exceeds both the minimum capital required by U.C.A. §31A-5-211 and the Risk-Based Capital requirements of U.C.A. §31A-17 Part VI. (COMMENTS ON FINANCIAL STATEMENT – Note 10, Capital and Surplus)

9

CONCLUSION

The assistance and cooperation extended during the course of the examination by officers, employees and representatives of the Company are acknowledged. In addition to the undersigned, Mr. Donald R. Catmull, Financial Examiner and Mr. Tomarsz Serbinowski, Actuary, participated in the examination representing the Utah Insurance Department. Ms. Lorraine W. Mayne, F.S.A., M.A.A.A., of Milliman and Robertson, Inc., conducted the actuarial phases of the examination.

Respectfully submitted,

A handwritten signature in cursive script that reads "David A. Martinez". The signature is written in dark ink and is positioned above the printed name and title.

David A. Martinez, CFE
Examiner-in-charge, representing the
Utah Insurance Department